

AR49

SCINTREX

Annual
Report 1976

The high contrast photo on our cover shows the new GAD-4 being used in a ground survey. This highly versatile portable gamma ray spectrometer is suitable for almost all uranium exploration . . . airborne, ground or bore-hole logging. The GAD-4 was developed in Scintrex' R&D laboratory and was introduced to the mining industry in March, 1976.

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Alfred J. Shaul
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Guaranty Trust Company of Canada

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Michael J. Lewis, *Manager, Contract Sales*

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Jack Webster

SCINTREX, INC.

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Jack Webster

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Report to the Shareholders



Sales of geophysical exploration equipment increased sharply in the second half of the year, producing a large backlog at the year end, despite a build-up in production capacity and an increase of about 28% in deliveries.

Sales of non-geophysical products achieved the significant level of 16% of total instrumentation sales. Primary clients for these instruments were nuclear power plants, although a substantial contract was placed by the National Atmospheric and Space Administration of the U.S.A.

Contrary to this favourable trend was a reduction in geophysical survey exploration on a world wide basis. This was due primarily to low base metal prices and high fuel costs. Fortunately, exploration for uranium picked up strongly at the same time, softening the downward trend.

Financial

The company's sales were marginally higher than in the previous year, reflecting a marked increase in manufacturing sales and the offsetting decrease in services. The seasonal downtrend in service sales in the fourth

quarter was more pronounced than usually, contributing to a loss for the last three months of the year.

Measured in terms of continuing operations only, there has been an improvement in pre-tax profitability from a loss of \$30,714 in the previous year to a profit of \$76,548. Including extraordinary items, however, the improvement was substantial, from a loss of \$464,514 to a profit of \$80,433. The previous year's loss was attributable mainly to the audio division, since sold.

During the year working capital improved by \$465,797 to \$749,159. About one third of this increase was the net result of a \$475,000 mortgage obtained on our Concord plant. Part of the funds was used for retirement of the long-term bank debt. Current bank indebtedness was cut by half, to \$464,811. The company is now in a far stronger financial position than it was a year ago.

Earth Science Division

Exploration activity during the past year was strongest in the field of uranium search, primarily in North America and South Africa. This was reflected in improved sales of instruments and services. A number of high sensitivity, low level, airborne radiometric surveys were undertaken in these geographic areas during the year. In Canada, the Tridem airborne electromagnetic system, V.L.F. system, magnetometer and large volume gamma radiometric package were flown on several very high resolution surveys for uranium. Line spacings as little as 400 feet were employed, providing the kind of detailed information formerly expected only from ground surveys.

As a consequence of the successful use of Magnetic Induced Polarization (MIP) in the exploration for heavy mineral sands in Australia, our local subsidiary

entered into a long range MIP program, in association with an Australian exploration group. In return for the right of exclusive use of the MIP method for this purpose, Scintrex will have a small carried interest in any future discovery.

A wholly owned subsidiary, Scintrex Surveys (Proprietary) Limited, was incorporated in South Africa, to strengthen our presence in that market. The office in Manila has been temporarily closed because of a slowdown of exploration activity in the Philippines.

Research and Development

Internally funded Research and Development activities were reduced in the past year, in favour of applying our R & D capabilities to revenue producing projects. Much engineering time was devoted to quotations and design of contract instrumentation, including instruments for Candu-type nuclear power plants, a nitric oxide monitor for airborne use by NASA (in conjunction with York University) and additional development on an underwater navigation system for scuba divers on behalf of the Defense and Civil Institute of Environmental Medicine.

A number of new or improved geophysical instruments have been designed in Scintrex' R & D laboratory during the year. Management is particularly proud of the new GAD-4 field portable gamma ray spectrometer for radiometric exploration. A small and low-powered package, this device is a truly universal and versatile uranium prospecting instrument for airborne, ground and borehole use. In the short time since its introduction in March, 1976, its market acceptance has been exceptional.

Our ubiquitous BGS-1S gamma ray scintillometer has gained new popularity with the introduction of a three-fold

larger volume crystal detector and has now been renamed the BGS-1SL. Many hundreds of these instruments are already used by uranium prospectors around the world.

In the induced polarization field Scintrex has concentrated on the development of a new line of combined frequency and time domain transmitters. Thus far, development work has been completed on the TSQ-2E (500 watts) and the TSQ-3 (3000 watts). Both of these transmitters are powered by permanent magnet generators and have crystal-controlled programmers.

In electromagnetic prospecting, further refinements were carried out on the SE-77, Turam-type multi-frequency system. As part of these developments, a facility has been provided, designated the DHEM-5 which, together with the standard SE-77, may be used to log drill holes. In mid-year the Geological Survey of Canada conducted an experimental logging program with this unit in several base metal mines. Results are deemed to be successful and are expected to be published shortly.

Contract Instrumentation

In the field of instrumentation for Candu-type nuclear power plants Scintrex has tendered successfully on the following devices: tritium monitors, trip test amplifiers (3 contracts), thermoluminescent plaques (2 contracts), reactivity control logic cabinets (2 contracts) and shut-off rod drop logic modules (2 contracts).

Tenders on other instruments in the nuclear field have been submitted. It is your company's objective to carve a good niche for Scintrex in this area, in which it has proven capabilities in both design and manufacturing. Such combination of abilities is not common among small or medium size Canadian companies.

Scintrex has recently been awarded a contract by the Canadian Department of Energy, Mines and Resources to develop a multi-element, field portable atomic absorption spectrometer for geochemical exploration. This award was as a result of an unsolicited proposal. The device in question will fit well into our present line of exploration instruments.

Present Operations

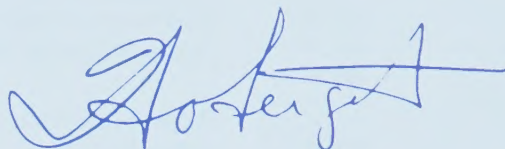
In response to the accelerated sales pace, instrument production capacity has been expanded by at least 50% over that of a year ago. Despite this, the backlog of geophysical and contract instrumentation at the end of April, 1976, stood at more than \$1,500,000. Included in this backlog is a large radiometric package for a helicopter-borne survey for the U.S. Energy Research and Development Agency. It is now certain that Scintrex' instrument manufacturing facilities will be employed at full capacity for the remainder of this year to fill the backlog and expected new orders.

The geophysical service area remains soft, although some uptrend is observable in Australia, where a change of government has produced a climate more conducive to exploration investment. A program of ground investigation of airborne electromagnetic survey targets, combined with training of local personnel, has been started in Brazil on behalf of its National Department of Mineral Production and the Canadian International Development Agency.

The increased demands made on our instrument production and engineering personnel have been admirably met by all departments and staff concerned. Emergencies were well handled and deadlines, with few exceptions, have

been met. The directors wish to thank all employees for their team spirit and good work in the past year.

On behalf of the board of directors,

A handwritten signature in blue ink, appearing to read 'H. O. Seigel', with a stylized flourish at the end.

Harold O. Seigel, Ph.D., P.Eng.,
President



SCINTREX LIMITED

(Incorporated
under the laws
of Ontario)

Consolidated Balance Sheet — January 31

Assets	1976	1975
Current:		
Cash	\$ 101,562	\$ 83,481
Accounts receivable	801,425	892,710
Inventories (Note 2)	978,339	902,667
Prepaid expenses and sundry assets	37,143	62,390
	<u>1,918,469</u>	<u>1,941,248</u>
Property, plant and equipment (Note 3)	1,256,341	1,466,712
Other (Note 4)	334,882	379,994
	<u>\$3,509,692</u>	<u>\$3,787,954</u>
Liabilities		
Current:		
Bank indebtedness (Note 5)	\$ 464,811	\$ 934,653
Customer deposits	80,361	54,228
Accounts payable and accrued liabilities	611,991	588,005
Income taxes payable	2,500	6,000
Current portion of long-term debt	9,647	75,000
	<u>1,169,310</u>	<u>1,657,886</u>
Long-term debt (Note 6)	542,077	384,189
Shareholders' Equity		
Capital Stock (Note 7)	1,689,204	1,689,204
Contributed surplus (Note 8)	145,238	141,677
Retained earnings (deficit)	5,818	(35,315)
	<u>1,840,260</u>	<u>1,795,566</u>
Less: Common stock in treasury — at cost (Note 7)	41,955	49,687
	<u>1,798,305</u>	<u>1,745,879</u>
	<u>\$3,509,692</u>	<u>\$3,787,954</u>

On behalf of the Board:
HAROLD O. SEIGEL, Director
ALFRED J. SHAUL, Director

See accompanying notes.

Consolidated Statement of Income and Retained Earnings — Year Ended January 31

	1976	1975
Sales	<u>\$3,883,001</u>	<u>\$3,778,474</u>
Cost of sales, including selling and administrative expenses	3,049,406	3,071,430
Depreciation and amortization (Notes 3 & 4)	324,684	364,858
Research and development expenses	405,132	425,119
Interest on long-term debt	41,360	38,289
Other interest	79,883	68,665
Loss on disposal of fixed assets	—	33,352
	<u>3,900,465</u>	<u>4,001,713</u>
Less research and development grants	94,012	192,525
	<u>3,806,453</u>	<u>3,809,188</u>
Income (loss) from continuing operations before undernoted items	76,548	(30,714)
Income taxes (Note 9)	97,000	40,843
	<u>(20,452)</u>	<u>(71,557)</u>
Losses from discontinued operations (Note 10)	7,114	155,257
Loss before extraordinary items	<u>27,566</u>	<u>226,814</u>
Extraordinary items:		
Recovery (loss) on disposition of discontinued operations (Note 10)	13,499	(270,000)
Reduction of income taxes on application of losses of prior years	94,500	32,300
	<u>107,999</u>	<u>(237,700)</u>
Net income (loss)	<u>80,433</u>	<u>(464,514)</u>
Retained earnings (deficit), beginning of year	<u>(35,315)</u>	<u>429,199</u>
	45,118	(35,315)
Deduct preference share dividends paid (Note 7)	39,300	—
Retained earnings (deficit), end of year	<u>\$ 5,818</u>	<u>\$ (35,315)</u>
Weighted average common shares outstanding	<u>885,015</u>	<u>884,890</u>
Income (loss) per common share (after preferred dividend requirements of \$19,650):		
Loss before extraordinary items	(\$0.05)	(\$0.28)
Net income (loss)	\$0.07	(\$0.55)

See accompanying notes

Consolidated Statement of Changes in Financial Position — Year Ended January 31

	1976	1975
Financial resources were provided by:		
Loss before extraordinary items	\$ 27,566	\$ 226,814
Less items not involving a current outlay of working capital, principally depreciation and amortization	<u>324,684</u>	<u>386,780</u>
Working capital provided from operations, exclusive of extraordinary items	297,118	159,966
Reduction of income taxes on application of losses of prior years	94,500	32,300
Recovery on disposition from discontinued operations	<u>13,499</u>	<u>—</u>
	405,117	192,266
Proceeds from disposition of equipment and other assets	47,720	131,401
Government of Canada grants received for equipment	3,561	61,707
Proceeds from disposition of treasury stock	7,732	—
Proceeds from issue of common stock	—	256
Proceeds from first mortgage on real estate	<u>475,000</u>	<u>—</u>
	<u>939,130</u>	<u>385,630</u>
Financial resources were used for:		
Additions to equipment and other assets	116,921	335,658
Retirement of long-term debt	317,112	76,127
Decrease in carrying value of assets applicable to discontinued operations	—	270,000
Dividends paid on preference shares	39,300	—
Purchase of treasury stock	<u>—</u>	<u>49,687</u>
	473,333	731,472
Increase (decrease) in working capital	465,797	(345,842)
Working capital, beginning of year	<u>283,362</u>	<u>629,204</u>
Working capital, end of year	<u>\$ 749,159</u>	<u>\$ 283,362</u>

See accompanying notes.

Auditors' Report

To the Shareholders of
Scintrex Limited

We have examined the consolidated balance sheet of Scintrex Limited and its subsidiaries as at January 31, 1976 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at January 31, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
May 7, 1976.

Laventhol & Horwath,
Chartered Accountants.

Notes to Consolidated Financial Statements — January 31, 1976

1. Summary of significant accounting policies:

Principles of consolidation:

These statements include the accounts of the company and its subsidiary companies, all of which are wholly-owned.

The figures for sales, cost of sales and expenses relating to discontinued operations (see Note 10) have been excluded for the current and prior year. The losses from the discontinued operations are shown separately in the statement of income.

Foreign exchange:

Amounts in foreign currencies have been translated substantially at rates current at year end except for properties and equipment which are at rates prevailing on dates of acquisition.

Inventories:

Inventories are valued at the lower of cost and net realizable value.

The percentage of completion method of accruing profit on fixed price contracts in progress is used, with anticipated losses being provided for in full.

Property, plant and equipment:

These assets are carried at cost. Depreciation is provided on the straight-line basis at the rates shown in Note 3.

Other assets:

Commencing with the 1975 fiscal year, the excess of cost of subsidiary over book value on acquisition is being amortized on the straight-line method over 10 years.

Patents and processes are being amortized on the straight-line method over 20 years.

2. Inventories:

	1976	1975
Raw materials	\$ 194,112	\$ 319,075
Work in process	446,150	310,446
Finished goods	338,077	273,146
	<u>\$ 978,339</u>	<u>\$ 902,667</u>

3. Property, plant and equipment:

	Rates of depreciation	1976	1975
Buildings	5%	\$ 599,938	\$ 599,938
Equipment	10% to 33 1/3%	2,283,458	2,384,668
		2,883,396	2,984,606
Less accumulated depreciation		1,784,888	1,675,727
		1,098,508	1,308,879
Land		157,833	157,833
		<u>\$1,256,341</u>	<u>\$1,466,712</u>
Depreciation expense for year		<u>\$ 278,964</u>	<u>\$ 317,107</u>

4. Other assets:

	1976	1975
Patents and processes, at cost less amortization	\$ 66,080	\$ 76,513
Excess of cost of subsidiary over book value on acquisition less amortization	268,802	303,481
	<u>\$ 334,882</u>	<u>\$ 379,994</u>
Amortization for the year amounted to	<u>\$ 45,720</u>	<u>\$ 47,751</u>

5. Bank Indebtedness:

The bank indebtedness is secured by a floating charge on all the assets of the company.

6. Long-term debt:

	1976	1975
<i>Scintrex Limited:</i>		
Bank debenture, repaid in current year	\$ —	\$ 337,500
11¾% first mortgage payable, maturing September 1, 1980	473,874	—
<i>Scintrex Inc.:</i>		
7¾% mortgage payable, maturing March 31, 1984	77,850	85,023
Note payable, repaid in current year	—	36,666
	551,724	459,189
Less amounts due within one year	9,647	75,000
	<u>\$ 542,077</u>	<u>\$ 384,189</u>

The aggregate amount of principal payments required in each of the next five fiscal years is estimated as follows:

1977	\$ 9,647
1978	10,500
1979	11,000
1980	11,500
1981	462,000

7. Capital stock:

Authorized:

350,000 6% cumulative, non-voting, convertible, preference shares, par value \$1 each

3,000,000 Common shares, no par value

	Preference		Common		Total
	No. of Shares	Par Value	No. of Shares	Consideration	Consideration
<i>Issued:</i>					
Outstanding at beginning and end of year	<u>327,500</u>	<u>\$327,500</u>	<u>885,015</u>	<u>\$1,361,704</u>	<u>\$1,689,204</u>
Common stock in treasury, at cost.					
January 31, 1976			<u>29,070</u>	<u>\$ 41,955</u>	
January 31, 1975			<u>33,890</u>	<u>\$ 49,687</u>	

Preference shares:

The preference shares may be converted at any time by the holder or holders thereof into fully-paid common shares (as presently constituted) of the company on the basis of one common for two preference shares. Dividends on these 6% cumulative preference shares are payable semi-annually on the last days of July and January of each year. These shares are non-voting unless the company has failed to pay dividends for a period of two years. During the year the company paid \$39,300 being two years arrears of dividends. As of January 31, 1976 the last five semi-annual dividends aggregating \$49,125 are in arrears and therefore these shares now have voting rights.

Employee stock option plan:

38,350 common shares remain under the company's revised 1971 Incentive Stock Option Plan. One half of these options may be exercised in each of the years 1976 and 1977 during the months of July, August and September at a price of \$0.80 per share. The right to exercise the options is cumulative.

8. Contributed surplus:

This arises from grants under the Industrial Research and Development Incentives Act (IRDIA) and the Programme for Advancement of Industrial Technology (PAIT) for capital expenditures incurred for the acquisition of property and equipment. The programmes provide for recovery of all or part of the grants where the assets acquired will be sold, destroyed or cease to be used for scientific research and development. There may be a possible repayment of \$22,000 of grants previously received relating to certain assets which may be considered to be of commercial use.

9. Income taxes:

Income taxes payable for the year are in respect of profits earned by certain subsidiaries.

The company and other subsidiaries have losses in current and prior years amounting to \$594,000 which may be used to reduce taxable income in future years as follows:

\$118,000	to	1978
138,000	to	1979
270,000	to	1980
68,000	to	1981
<u>\$594,000</u>		

10. Discontinued operations:

During the year, the Audio Division was discontinued and the inventories and equipment sold. The operating loss of the Division for the current year and prior year is shown separately in the consolidated statement of income. The loss of \$220,000 on the sale of the inventories and equipment was included in the 1975 consolidated income statement as an extraordinary loss.

The following is a condensed statement of the discontinued Audio operations:

	Year Ended January 31, 1976	Year Ended January 31, 1975
Sales	<u>\$147,198</u>	<u>\$573,872</u>
Profit (loss) before the following:	<u>\$ 16,513</u>	<u>\$ (67,911)</u>
Depreciation and amortization	8,352	21,922
Interest on long-term debt	6,365	13,424
Other interest	<u>8,910</u>	<u>52,000</u>
	<u>23,627</u>	<u>87,346</u>
Net loss	<u>\$ 7,114</u>	<u>\$155,257</u>

In the 1975 fiscal year the company provided for an extraordinary loss of \$50,000 on liquidation of a subsidiary. In 1976, \$13,499 of the anticipated loss was recovered in full settlement.

11. Remuneration of directors and senior officers:

Total remuneration paid to directors and senior officers amounts to \$168,489 for the year (\$142,650 in 1975).

12. The 1975 comparative figures have been reclassified to conform with the current year's presentation.



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Complete Geophysical
Instrumentation
and Services